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PAKISTAN

MONETARY TRANSPARENCY

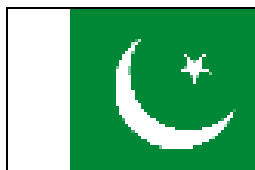
Country Report 2005

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PAKISTAN



COMPLIANCE RATINGS

<i>Monetary transparency</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
...				
Clarity of roles	...	...	...	..
Open decision process	...	...	..	..
Availability of information	...	...	..	..
Central bank accountability	...	...	...	..
Score	3.00	3.00	2.50	2.00

OUTLOOK & COMMENTARY

The State Bank of Pakistan (SBP) has remained committed to monetary policy transparency this year. It continues to publish semi-annual statements on the decisions of the Central Board and has medium-term plans to transform one of its co-ordinating bodies into a decision-making body along the lines of a Monetary Policy Committee. The SBP continues to improve available data with the implementation of its Data Warehouse Project which will be completed by the end of 2006.

There are still some remaining obstacles impeding monetary transparency, however. No changes have been made to clarify the SBP's main objectives beyond 'monetary stability', and there have no efforts to put the SBP's autonomy from the government into law. Details are not published of the terms of the SBP's lending to the government.

EXECUTIVE SUMMARY

3.00 Enacted

The State Bank of Pakistan (SBP) has remained committed to monetary policy transparency this year. It continues to publish semi-annual Monetary Policy statements on the decisions of the Central Board, although there is still very little information published about the activities of the several consultative bodies that play a coordination role in monetary policy. However, the SBP is planning to restructure the existing Monetary and Exchange Rate Policy Committee (MERPC) into a decision-making body along the lines of a Monetary Policy Committee, by appointing two more members and disclosing minutes of the meetings. These plans are reported in the Strategic Plan for 2005-2010.

The SBP continues to improve available data with the implementation of its Data Warehouse Project, which will be completed by the end of 2006. The first stage of this project is now nearing completion and banks are providing data on their balance sheets to the SBP. A monthly monetary survey is also now published on the website. The next stage of the project is to release monitoring data for non-banking financial institutions.

Despite these achievements, no progress has been made on removing the three remaining significant obstacles to monetary policy transparency. Firstly, the term ‘monetary stability’ has not been further clarified in the SBP Act of 1956, a measure which would improve policy transparency. Secondly, the legal terms under which the government may overrule the SBP or delegate the powers of the Central Board of Directors to other agencies remain vague. Without this, the bank’s autonomy remains questionable, perhaps not in the short term (as it operates well with the government currently), but certainly in the longer term. Thirdly, transparency would be significantly enhanced if the SBP published the terms and maturities of its lending to the federal, provincial, and local governments.

Pakistan’s overall score is unchanged from last year.

1. CLARITY OF ROLES, RESPONSIBILITIES, AND OBJECTIVES OF CENTRAL BANKS



Enacted

The objectives and institutional framework of monetary policy

Central bank objectives and responsibilities

The institutional framework for monetary policy in Pakistan is set out in the State Bank of Pakistan Act of 1956 and its subsequent amendments.¹ The Act stipulates that the Central Board of Directors of the State Bank of Pakistan (SBP) shall ‘secure monetary stability and the soundness of the financial system’.² However, the Act does not define ‘monetary stability’ with precision, although Sections 9(a) and (b) do set out monetary policy formulation and objectives. This ambiguity has allowed the government to adopt different monetary policy frameworks at different times. To improve transparency, the IMF recently recommended to the Pakistani authorities that the SBP Act be amended to define the term more clearly and to establish a hierarchy of multiple objectives of monetary policy.³ The SBP Act is in the process of being amended to reflect the bank’s role in the foreign exchange market, but no changes are scheduled for clarifying monetary policy.⁴

The SBP is charged with approving the aggregate credit requirements of public finance bodies and the private sector, advising the federal government on the impact of monetary policy on the economy, managing foreign exchange, and reporting to the parliament on the state of the economy.⁵

The SBP set up a separate department three years ago for the development of the Islamic banking sector and ran a course in September 2005 on Islamic banking to meet the growing demand for Sharia banking services. By March 2005, it had issued licenses to several Islamic banks as well as 29 branches of nine conventional banks. Reporting on the Bank’s activities in Islamic banking can be found in both the Financial Sector Assessment and the annual Banking System Review, both of which are published regularly and are available on the SBP website.⁶

Operational autonomy

In February 1994, the SBP was granted full autonomy to regulate and supervise monetary and credit mechanisms. Three amendment ordinances to the SBP Act in January 1997 gave the SBP the authority to regulate the banking sector, to independently conduct monetary policy, and to set limits on government borrowings from the SBP. The Monetary and Fiscal Policies Coordination Board (MFPCB) manages and harmonises monetary, fiscal, and exchange rate policies to ‘ensure consistency among macroeconomic targets of growth, inflation and fiscal, monetary, and external accounts.’⁷ The National Credit Consultative Council (NCCC) draws up the Annual Credit Plan, which determines the credit requirements for both the public and private sector.

SBP officials have stated that in carrying out the assigned functions of coordinating fiscal, monetary, and exchange rate policies, the MFPCB does not take any measures that adversely affect the autonomy of the SBP as provided in the SBP Act. Commentators have asserted that the stature of the central bank is growing among government institutions, as is its institutional competence.⁸ Although the SBP does not yet have complete legal autonomy, the government does not interfere with the workings of the bank. Neither is there any clause in the law which explicitly permits the government to interfere.⁹

There is currently a proposal for an amendment to the SBP Act, stipulating that the governor of the SBP cannot not be removed without just cause before the end of his three-year (renewable for one term) tenure, has been incorporated into SBP legislation. This amendment would reinforce the formal autonomy already granted to the central bank.

The SBP Act grants the Federal Government the power to declare the SBP 'superseded' if, in its judgement, it fails to carry out its legal obligations.¹⁰ The government may then delegate the authority of the SBP's Central Board of Directors to another agency, and must submit a full report to parliament on the grounds for its decision as soon as possible. The decision must also be reported in the Official Gazette. However, the specific conditions under which the government is authorised to override SBP decisions and replace the Central Board of Directors with an agency chosen arbitrarily by the government are not stipulated in the legislation. This is a significant obstacle to the transparency of the monetary policy process and a potential threat to the operational autonomy of the central bank. The IMF recently raised this concern with the Pakistani authorities and has recommended that these conditions be specified in legislation.¹¹

Institutional relationship between monetary and fiscal operations

Lending to government

Information on the volume of government borrowing from the SBP is provided in the table of cumulative money flows produced for the SBP's *Quarterly Reports*. It is also available separately in the form of a weekly and monthly survey on the SBP website.¹² The SBP is allowed, within certain limits, to purchase and sell government (both federal and provincial) securities, on the recommendation of the Central Board of the SBP.¹³

The SBP is authorised to provide advances to the federal, provincial, and local governments, either through government securities or loans.¹⁴ The advance to federal government provided against government securities is for six months at market-determined interest rates (the latest weighted average yield on the six-month T-Bill auctioned to the primary dealers). The information is available on the SBP website (domestic debt figures) and is also discussed in other publications such as its annual and quarterly reports.¹⁵ However, the actual interest rates, conditions, and maturities of advances by the SBP to federal, provincial, and local governments are not disclosed. This omission is a significant obstacle to transparency and was recently raised by the IMF with the Pakistani authorities, although no action has been taken thus far to disclose this information.¹⁶ Other advances like ways and means and overdrafts are provided to fill very short-term mismatches and these are a negligible ratio of total advances (usually less than 1%).¹⁷

Central bank involvement in the rest of the economy

The SBP is prohibited, under the terms of the SBP Act, from participation in trade or commercial activities. Nor can it own property -- other than its own infrastructure -- or make unsecured loans.¹⁸

SBP officials are prohibited from sitting on the boards of commercial entities. An exception is made for state-owned bodies in which the SBP has invested capital, such as the House Building Finance Corporation (HBFC) and the Agricultural Development Bank of Pakistan (ADBP). There are no regulations outlining the limits of central bank involvement on such boards, with the exception of policies established in 1998 prohibiting SBP officials from nominating board members of these corporations. SBP officials stated that although the SBP holds share capital in some entities, it does not influence their decision-making.¹⁹

Regarding procurement in the private sector for its services, the SBP spun off a subsidiary (SBP Services) that performs many of the support services for the SBP, such as currency printing and publications.

Central bank profit allocation

The SBP Act established an Industrial Credit Fund, an Export Credit Fund, a Rural Credit Fund, a Loan Guarantee Fund, and a Housing Credit Fund, all of which are financed in part by a share of the SBP's operating profits.²⁰ The Federal Government may also decree that a part of the SBP's profits be allocated to a Reserve Fund, before any residual (after depreciation and provision for bad debt) is distributed as a dividend to the SBP's shareholders (i.e. the federal government) or directly transferred to the government.²¹ Details are provided in the Annual Report.²²

Agency roles performed by the central bank on behalf of the government

The agency roles entrusted to the SBP on behalf of the government include acting as banker to the government; performing the role of a fiscal agent, including the responsibility for conducting short- and long-term government paper auctions, and managing the external debt (external debt is managed by the Economic Affairs Division/Debt Management Office). In addition, the SBP is also responsible for maintaining all federal government accounts, and making local and foreign currency payments on behalf of the federal government from its various accounts or liquid reserves.²³

The SBP is entrusted with the management of the public debt and with issuing any new loans.²⁴ Although the Ministry of Finance (MoF) monitors the government's external accounts, it does not have any significant role in either the primary or secondary markets. Clearance and settlement of government securities is performed exclusively by the SBP. The general debt management framework is outlined in the Debt Management Committee Report of the MoF.

2. OPEN PROCESS FOR FORMULATING AND REPORTING MONETARY POLICY DECISIONS

● ● ● Enacted

The framework, instruments, and targets of monetary policy

Framework and monetary targets

The primary objective of monetary policy in Pakistan is to control the growth of the money supply, measured by M2. Growth of M2 is targeted on the basis of an estimated money demand function that incorporates annual economic growth and inflation projections.²⁵ Monetary targets are drawn up by the Central Board of the SBP, with significant input from the NCCC and the MFCPB, in accordance with the annual National Credit Plan. The Credit Plan makes fund allocations for various sectors of the economy, including the government (for its budget financing and commodity operations) and the non-governmental sector (including state-owned enterprises). The Credit Plan determines safe limits of monetary and credit expansion during the year, considering estimates of growth, inflation and external sector developments.

A key responsibility of the SBP is to maintain the external value of the currency. The Foreign Exchange Act of 1947 lays out the measures to be taken in order to regulate foreign exchange reserves. Pakistan operates a market-determined floating exchange rate regime and all surrender requirements of foreign exchange receipts have been abolished. However, the SBP is required to prevent major fluctuations in the value of the rupee in order to maintain the competitiveness of Pakistani exports and to ensure the stability of the foreign exchange market.²⁶

Monetary instruments

The SBP's monetary operations, as well as updated lists of counterparties (such as primary dealers), are detailed in publicly available circulars. Monetary policy is conducted through open market operations, via regular auctions of T-Bills and the long-term Pakistan Investment Bond (PIB),²⁷ as well as the use of discount rate and cash/liquidity asset requirements on commercial banks. Although the MoF communicates the targets for the T-Bill auctions, the SBP sets the final target after accounting for the liquidity position of commercial banks and upcoming developments in the money market. The central task of monetary policy in the recent past has been to sterilise substantial foreign currency inflows.

The monetary policy-making body

Monetary board

The primary governing body of the SBP is the Central Board of Directors. The details underlying the appointment of its members and the terms of office are formalised in legislation.²⁸ The Central Board comprises the governor of the SBP, representatives from the MoF, and directors from each province, all nominated by the Federal Government. In February 2005, the current SBP Governor was presented with the 'Central Bank Governor of the Year in Asia' award for 2005, run by the Financial Times. His successor is Pakistan's first-ever female Governor, Dr Shamshad Akhtar who, as per legislation, will occupy the position for three years.²⁹

The Monetary Board is obliged to submit a *Quarterly Report* to parliament on the state of the economy with special reference to economic growth, the money supply, credit, balance of payments, and price developments.³⁰

In addition to the Central Board of Directors, there are several consultative bodies that play a coordination role in monetary policy. These are the Monetary and Fiscal Policies Coordination Board (MFPCB), the National Credit Consultative Council (NCCC), and the Monetary and Exchange Rate Policy Committee (MERPC).

The MFPCB manages and harmonises monetary and exchange rate policies, as well as fiscal policy. Its task is to ensure consistency among macroeconomic targets of growth, inflation and fiscal, monetary, and external accounts. The board includes officials from the Ministries of Finance and Commerce, the Planning Commission, and the Finance Division in the Government of Pakistan. It meets on a quarterly basis to review the consistency of macroeconomic policies and to revise limits and targets set at the time of the formulation of the budget, keeping in view the latest developments in the economy.

The responsibilities and membership of the MFPCB are specified in legislation,³¹ but as it is not a policy-making body, there is very little information publicly available regarding its operations, and it does not have a formal decision-making or voting structure.³²

The NCCC formulates the annual National Credit Plan, which sets targets for the expansion of domestic credit. The NCCC includes the SBP governor, representatives from major ministries (Agriculture, Commerce, Finance and Industry), representatives from the provincial governments, and private sector representatives drawn from the domestic chambers of commerce, primary dealers, and the Pakistan Bankers' Association (PBA), among others. NCCC meetings are held twice a year on a pre-announced schedule. After each meeting, a press release is issued outlining any major decisions taken, along with broad estimates of credit to the private sector.

The MERPC is an internal advisory committee of the SBP. It holds its meetings regularly (usually every month) under the chairmanship of the deputy governor. Depending on the importance of the issues being discussed, the governor may also preside at the meeting. Senior SBP officials who deal with monetary policy, money markets, debt management, central banking policy and economic analysis attend the meetings as members. The meeting reviews monetary and exchange rate developments in the economy in relation to inflation and growth, and recommends corrective actions. Minutes of MERPC are not published. However, the SBP is planning to restructure the existing MERPC into a decision-making body along the lines of a Monetary Policy Committee, by appointing two more members, and disclosing minutes of meetings. These plans are reported in the Strategic Plan for 2005-2010.³³

Public statements on monetary policy

Periodic publications

The SBP's publications programme, both in terms of paper publications and information provided on the SBP website, provides timely and comprehensive data on the SBP's activities. The SBP publishes an *Annual Report* (which contains a *Review of the Economy* and an *Annual Performance Review*), *Quarterly Reports*, and a *Monetary Policy Statement*, released every six months. The semi-annual *Monetary Policy Statement* includes a review of the macroeconomic outlook and the SBP's monetary policy stance, as well as information on monetary and credit trends for the preceding year. The *Quarterly Reports* contain information on macroeconomic performance, a range of relevant monetary data, and economic analysis of leading issues affecting monetary policy and exchange rates. All reports can be found on the SBP website.³⁴

Other publicly available publications include the monthly *Statistical Bulletin*, a summary weekly *Statement of Affairs* (listing assets and liabilities), a monthly *Export Receipts*, a bimonthly *Pakistan's Balance of Payments*, and an annual *Banking Statistics of Pakistan*.³⁵ In addition, the SBP publishes a *Quarterly Performance Review of the Banking System* and an annual *Banking System Review*. Publications on Islamic Banking are also included on the SBP's website. The SBP also discloses a summary of its balance sheet every week and a detailed, audited balance sheet consistent with internationally accepted accounting principles is included in the *Annual Report*.

Public hearings

There are indications that the scope and intensity of SBP consultations with key stakeholders on monetary policy issues are increasing. The number of central bank meetings with private sector participants has increased substantially in recent years. The SBP Central Board meetings are now held in different cities, and the SBP has made efforts to consult a wider audience in the financial community, including depositors, borrowers, industry trade groups, and other key stakeholders.³⁶

A series of formal and informal meetings are held between the SBP and selected private sector representatives, who are invited to provide feedback on proposed changes to monetary regulations. However, there are no public announcements of these meetings, nor are any minutes published. The Pakistan Bankers' Association meets quarterly with SBP officials to discuss monetary regulations and conditions in the market. In addition, changes in monetary management are discussed and disclosed to the market via the SBP's network of primary dealers on a monthly basis.

Currently, the SBP seeks stakeholders' feedback before taking important policy decisions. The SBP places all draft prudential regulations/guidelines and other policy documents on its website for comments and suggestions from the stakeholders before final issuance.³⁷ Annual Financial Sector Assessments (FSA) are disseminated on the SBP website to generate private-sector feedback. These documents are drafted in tandem with an advisory committee of public and private sector stakeholders. In October 2004, the SBP circulated its Draft Guidelines for Infrastructure Project Financing, inviting comments from key stakeholders.

Regulations on data reporting by financial institutions to the central bank

Regulations on data reporting by financial institutions are set out in the SBP Act and the 1962 'Banking Companies Ordinance' (BCO), which gives the central bank full authority to supervise and regulate banks and financial institutions.³⁸ The SBP Act requires corporations with which the SBP has transactions, including all domestic financial institutions, to furnish the SBP with returns and sets out the provisions for enforcing this practice.³⁹

The SBP has drafted prudential regulations for banks and rules of business for Development Finance Institutions. Two departments of the SBP are charged with supervision of the financial sector. Off-site management is the responsibility of the Banking Supervision Department, while the Banking Inspection Department takes charge of on-site monitoring. The SBP reports that its on-site examination capabilities have been 'substantially augmented to bring them at par with the expected international standards.'⁴⁰ This sentiment has been echoed across the private sector. Improvements have been noted in both the SBP inspection staff, in terms of training and professionalism, as well as the inspection reports themselves, which are seen as being increasingly balanced, constructive and informed.⁴¹

Overall banking supervision is felt to be improving, although some commentators said that non-bank financial institutions (which fall under the purview of the Securities and Exchange Commission of Pakistan, SECP) need their regulatory frameworks to be improved. In January 2004, the central bank adopted a new risk-based system of monitoring, surveillance, and supervision of banks and development finance institutions. The new system is

expected to improve the quality of the SBP's surveillance and regulation activities.⁴² The SECP has put in place a new system of monitoring, supervision, and surveillance to strengthen supervision in the financial sector.⁴³ There are also areas of less than full compliance with supervisory standards that relate to legal provisions regarding the independence of the regulator, arrangements for consolidated supervision, and provisions for country risk. The IMF has stated that this does not currently pose a major risk to the stability of the financial system, since compliance is high with the principles dealing with prudential regulation. A pending comprehensive review by the Law Review Commission may be used to address these deficiencies.⁴⁴

3. PUBLIC AVAILABILITY OF INFORMATION ON MONETARY POLICY



Release of central bank data

The SBP currently publishes a wide range of macroeconomic and monetary data as part of its *Quarterly* and *Annual Reports*. In addition, Pakistan joined the General Data Dissemination System (GDDS) of the IMF in November 2003. Consequently, most key SBP data meet IMF standards, and the SBP is committed to further improvements with a view to subscribing to the IMF Special Data Dissemination Standard (SDDS) in the future. To assess the quality of Pakistan's financial data, the IMF has conducted a Report on the Observance of Standards and Codes (ROSC) Data Module and Detailed Assessments Using the Data Quality Assessment Framework, which is due for release in the coming months.

The SBP has short-term plans to prepare and publish an advance release calendar, collect data on the assets and liabilities of deposit money banks on a monthly basis, disaggregate data on non-financial public enterprises and private non-bank financial institutions, and compile a monthly monetary survey. Medium-term plans have been prepared to collect data on non-bank financial institutions, *modarabas* (Islamic businesses), and investment corporations in order to facilitate the development of a financial survey. There are also plans to improve data standards on foreign liabilities, credit to the private sector, methodology, the balance of payments, the international investment position, and international reserves.⁴⁵ All this information will be produced as part of the SBP's Data Warehouse Project which will be completed by end 2006. The first stage of this project is now nearing completion and banks are providing data on their balance sheets to the SBP in December 2005. A monthly monetary survey is also now published on the website. The next stage of the project is to release monitoring data for non-banking financial institutions.⁴⁶

The SBP has improved the timeliness of the monthly data on the net external position, domestic credit, and broad and narrow money. According to Pakistan's posting on the GDDS Bulletin Board, monthly data on the country's net external position, monetary base, domestic credit, and broad money indicators are published with a timeliness of 30 days. Interest rate data, including short- and long-term government security rates, is published daily.⁴⁷

The Monetary Survey is compiled in accordance with the analytical framework of the IMF's *Monetary and Financial Statistics Manual*. It is produced by consolidating the balance sheets of the SBP and the deposit money banks or scheduled banks. The assets and liabilities of non-bank financial institutions such as *modarabas*, discount houses and venture capital companies, are not incorporated. Foreign positions are distinguished from domestic positions on the basis of residency, in accordance with the IMF's *BPM5*.

The central bank balance sheet

The SBP publishes a detailed balance sheet along with profit and loss accounts on a yearly basis in the *Annual Report*. Information on market transactions such as T-Bill auctions and foreign exchange activities is also made available through newspapers and the SBP's publications. In addition, a summary balance sheet is released weekly. The SBP began to prepare its balance sheet according to International Accounting Standards (IAS) in June 2000. Weekly reports are included in the *Statement of Affairs*.⁴⁸

Market transactions or monetary operations are reported the same day. All information is available online. Aggregate amounts of monetary operations, with the exception of swaps, can be found in the *Annual Report*. The foreign exchange position on the SBP can be found on the SBP website, where the SBP publishes both its own reserves and those of domestic banks. Information on contingent liabilities is available in the Annual Report, published online.⁴⁹

Lender of last resort

The SBP acts as a lender of last resort to banks and credit institutions in Pakistan, providing a discount window facility to meet temporary liquidity shortages.⁵⁰ The SBP is also empowered to provide emergency financial support to those banks that may need such aid.

Public information services

Both the Corporate and Media Affairs Department (CMAD) and the Publications Department handle all requests for information, from both the press and the general public. The SBP publishes a large volume of information on its website, all of which is available in English. Monetary data, such as the position of foreign exchange reserves, auctions of government Treasury Bills, and monetary developments are published both as press communiqués and online. In addition, all the governor's speeches and press releases are reproduced in their entirety. The Banking Policy Department and the Exchange Policy Department have help desks with electronic query forms.⁵¹ The CMAD has also appointed a Chief Spokesman for the SBP.

4. ACCOUNTABILITY AND ASSURANCES OF INTEGRITY BY THE CENTRAL BANK



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Accountability before a designated public authority

The governor and other high-ranking officials of the SBP appear before the Economic Coordination Committee of the Cabinet (ECCC) and make periodic appearances in parliament, although there is no formal legal requirement to do so. The SBP is required to answer any questions from parliamentary members or committees, and unofficial SBP policy requires a written response to any query from the general public. The SBP is also subject to reviews conducted by the Senate Banking Committee and National Assembly Banking Committee.

The SBP Act requires the Central Board of Directors of the SBP to submit a *Quarterly Report* to parliament on the state of the economy with special reference to economic growth, the money supply, credit, balance of payments, and price developments.⁵² In a 2004 review, the IMF concluded that the SBP follows all good practices on accountability and assurances of integrity of its staff.⁵³

Financial statement

Audited financial statement

Public disclosure of audited financial statements of the SBP's operations is required by the SBP Act.⁵⁴ The SBP publishes its balance sheet in its *Annual Report*. The SBP's statements include the balance sheet and profit and loss account, which contains information on the operating expenses and revenues, as well as the dividend accrued to the Government of Pakistan and balance transferred to the government. This is audited externally by two independent, private sector auditing firms. The *Report of the Auditors* is appended to the *Annual Report*, and is undertaken in accordance with International Auditing Standards.⁵⁵

Under the SBP Act, the SBP must hold an annual shareholders meeting, where the shareholders present are entitled to discuss the annual accounts, the report of the Central Board on the working of the SBP throughout the year, and the auditors' report on the annual balance sheet and accounts.⁵⁶ All operating expenses and revenues of the SBP are detailed in the *Annual Report*.

External and internal audit

The SBP Act requires the appointment annually of at least two auditors whose remuneration is fixed at the annual general meeting. Somewhat problematically, the auditors may be shareholders, although officers of the SBP are disqualified. Any auditor can be re-elected with no legal limits on the number of renewals.⁵⁷ The accounts for 2003-04 were audited by two accounting firms -- Tasseer Hadi Khalid & Co and A.F. Fergusons & Co. Their report is reproduced in the SBP's *Annual Report*.⁵⁸

The SBP has an Audit Department that is charged with ensuring that the departments at the Central Directorate and all branch offices comply with rules and regulations issued by the central bank.⁵⁹ Internal auditing has been strengthened recently by new management of the Audit Department, which reports directly to the governor of the

SBP. In the past three years, the Audit Department has inspected both regional offices and departments at the SBP Secretariat.

The Audit Department is responsible for addressing non-compliance with regulatory requirements, for identifying problems and proposing resolutions, and for investigation of ‘financial bungling’. The department can assign compliance responsibilities to directors of the departments concerned, chief managers of offices, and -- through brief appraisals -- to the governor.⁶⁰

Subject to meeting all other pertinent statutory requirements, the federal government may at any time appoint the Auditor General or other auditors of its choice to examine and report on the accounts of the SBP.⁶¹

According to the SBP Act, every auditor will be supplied with a copy of the annual balance sheet and will be given complete access to the SBP’s books and other documents. The auditors will report, as appropriate, to the shareholders or the federal government.⁶²

Conduct of officials

Detailed rules for appointment, terms of office, and criteria for removal of the head and members of the governing body of the SBP are specified in the SBP Act.⁶³ The SBP has a formal code of conduct for employees, which is available on the central bank’s website. This code -- the State Bank of Pakistan Staff Regulations 2001 -- includes regulations on recruitment, promotion, staff loan policy, discipline (including provisions relating to political participation, speculation in financial markets, and confidentiality), punishment and appeal.

Legal protection for actions taken by SBP employees in the conduct of their official duties, provided such actions have been taken in good faith, have been provided in the Banking Companies Ordinance, 1962 (section 94). The scope of legal protection has been further broadened through amendment to the SBP Staff Regulations whereby it is the responsibility of the SBP to provide for the legal costs of staff that encounter litigation resulting from the performance of official duties.⁶⁴

INTERVIEWS

Representatives of *Oxford Analytica* interviewed the following individuals during a visit to Pakistan between 7 and 10 November 2005.

State Bank of Pakistan

10 November 2005

Mr Riaz Riazuddin	Economic Advisor	SBP Economic Policy Dept
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Ministry of Finance

10 November 2005

Dr Ashfaque Hassan Khan	Economic Advisor	Ministry of Finance
Muhammad Yunis Khan	Auditor General	Ministry of Finance

ADDITIONAL INTERVIEWS

7 November 2005

Dr Ali Cheema	Associate Professor	Lahore University of Management Sciences
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8 November 2005

Henri Lorie	Senior Resident Representative	IMF
Riaz Hassan Naqui	Former Chairman	Central Board of Revenue

9 November 2005

Ismaila Ceesay	Senior Financial Management Specialist	World Bank
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NOTES

- ¹ The State Bank of Pakistan (SBP) Act of 1956 is available on the SBP website: www.sbp.org.pk.
- ² SBP Act 1956, Article 9A
- ³ 'Pakistan: Financial System Stability Assessment', IMF, July 2004, pp.45-46.
- ⁴ Interviews in Pakistan, 7-10 November 2005.
- ⁵ SBP Act 1956, Article 9A.
- ⁶ Interviews in Pakistan, 7-10 November 2005.
- ⁷ SBP Act 1956, Article 9B, 2(a)-(b).
- ⁸ Interviews in Pakistan, 27 September - 1 October 2004.
- ⁹ Interviews in Pakistan, 27 September - 1 October 2004.
- ¹⁰ SBP Act 1956, Article 52.
- ¹¹ 'Pakistan: Financial System Stability Assessment', IMF, July 2004, p.47.
- ¹² www.sbp.org.pk/ecodata/gborrow.pdf
- ¹³ SBP Act 1956, Article 10(a)-(b).
- ¹⁴ SBP Act 1956, Article 17.5.
- ¹⁵ Interviews in Pakistan, 27 September - 1 October 2004.
- ¹⁶ 'Pakistan: Financial System Stability Assessment', IMF, July 2004, p.47.
- ¹⁷ Interviews in Pakistan, 27 September - 1 October 2004.
- ¹⁸ SBP Act 1956, Article 20.
- ¹⁹ Interviews in Pakistan, 27 September - 1 October 2004.
- ²⁰ SBP Act 1956, Articles 17(a)-(e).
- ²¹ SBP Act 1956, Articles 41 and 42.
- ²² www.sbp.org.pk/reports/annual/arFY02/chap13.pdf.
- ²³ SBP Act (1956), the Foreign Exchange Regulation Act (1947), and the Public Debt Act (1944).
- ²⁴ SBP Act 1956, Article 21.2(a).
- ²⁵ SBP Website introduction to the SBP.
- ²⁶ www.sbp.org.pk/about/core_functions/index.htm
- ²⁷ The PIB is available in tenures of three, five, and ten years.
- ²⁸ SBP Act 1956, Articles 10, 13, 14 and 15.
- ²⁹ SBP Press releases at www.sbp.org.pk/press/releases.asp
- ³⁰ SBP Act 1956, Article 9A(f).
- ³¹ SBP Act 1956, Article 9B(f).
- ³² Interviews in Pakistan, 7-10 November 2005.
- ³³ Interviews in Pakistan, 7-10 November 2005 and Strategic Plan 2005-10, SBP.
- ³⁴ www.sbp.org.pk/publications/index.asp
- ³⁵ www.sbp.org.pk/reports/stat_reviews/index.htm
- ³⁶ Interviews in Pakistan, 15-17 October 2002.
- ³⁷ Interviews in Pakistan, 27 September - 1 October 2004.
- ³⁸ This legislation is available on the SBP website.
- ³⁹ SBP Act (1956), Articles 36 and 38.
- ⁴⁰ Ishrat Husain, 'Regulatory Strategy of the State Bank of Pakistan,' address delivered at the 18th Annual General Conference of the Pakistan Society of Development Economics, Islamabad, 15 January 2003, *BIS Review* 3/2003.
- ⁴¹ www.sbp.org.pk/about/ordinance/supervision.htm
- ⁴² 'State Bank to introduce new system of surveillance, monitoring, and supervision of banks/DFIs', SBP press release, 9 January 2004.
- ⁴³ Interviews in Pakistan, 7-10 November 2005.
- ⁴⁴ 'Pakistan: Financial System Stability Assessment', IMF, July 2004.
- ⁴⁵ dsbb.imf.org/Applications/web/gdds/gddscountrycategorysummreport/?strcode=PAK&strcat=Sum1
- ⁴⁶ Interviews in Pakistan, 7-10 November 2005.
- ⁴⁷ dsbb.imf.org/Applications/web/gdds/gddscountrycategorysummreport/?strcode=PAK&strcat=Sum2
- ⁴⁸ www.sbp.org.pk/publications/statements/index.htm
- ⁴⁹ Interviews in Pakistan, 7-10 November 2005; <http://www.sbp.org.pk/reports/annual/index.htm>
- ⁵⁰ A description of the SBP's LOLR function is available on the SBP website, in 'Core Functions of SBP'.
- ⁵¹ www.sbp.org.pk/bpd/helpdesk.asp

⁵² SBP Act 1956, Article 9A (f).

⁵³ 'Pakistan: Financial System Stability Assessment', IMF, July 2004, p.47.

⁵⁴ SBP Act 1956, Article 40.

⁵⁵ SBP Act 1956, Article 45.

⁵⁶ SBP Act 1956, Article 16.1-2.

⁵⁷ SBP Act, Article 43.

⁵⁸ State Bank of Pakistan, *Annual Performance Review, 2003-2004*.

⁵⁹ www.sbp.org.pk/departments/audit.htm

⁶⁰ www.sbp.org.pk/departments/audit.htm

⁶¹ SBP Act, Article 44.

⁶² SBP Act, Article 45.

⁶³ SBP Act 1956, Articles 10-15.

⁶⁴ Interviews in Pakistan, 27 September - 1 October 2004. See also: Banking Systems Review, December 2003, at: www.sbp.org.pk/publications/index.asp